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Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo

I. Introduction

1. The present report is submitted pursuant to Security Council resolution 1244 (1999) of 10 June 1999, by which the Council decided to establish the United Nations Interim Administration Mission in Kosovo (UNMIK) and requested the Secretary-General to report at regular intervals on the implementation of the mandate. It covers the activities of UNMIK and developments in Kosovo, Serbia and Montenegro, from 1 October to 31 December 2003.

2. The main event during the reporting period was the announcement on 5 November of a mechanism to review the progress of the Provisional Institutions of Self-Government towards meeting the benchmarks in the "standards before status" policy. This mechanism envisages that, depending on progress towards reaching the standards as assessed during quarterly periodic reviews, a first opportunity for a comprehensive review of progress should occur in mid-2005. Initiation of the political process to determine Kosovo's future status will depend on the outcome of the review. The review mechanism has given new momentum to the "standards before status" policy and refocused the work of the Provisional Institutions on meeting the benchmarks contained in the eight areas covered by the "standards before status" policy. On 10 December, my Special Representative, Harri Holkeri, and the Kosovo Prime Minister launched the "Standards for Kosovo" document, which elaborates on the original standards paper and sets out in clear and detailed terms the standards that Kosovo must reach, in full compliance with resolution 1244 (1999), the Constitutional Framework and the original standards/benchmarks statement endorsed by the Security Council, adhering to the primacy of the regulations promulgated by UNMIK and subsidiary instruments thereunder as the law applicable in Kosovo. The document was prepared by my Special Representative in close consultation with the Provisional Institutions and all major political parties in Kosovo, including Coalition Return, as representatives of the Kosovo Serb community, and political parties representing other smaller ethnic groups, including the Turks, Ashkali, Roma, Egyptians and Bosniaks. UNMIK kept Belgrade informed during the preparation of the document and Belgrade was able to provide its views on it. However, Belgrade found the document unacceptable when it was launched. It took the view that the consultations had not been sufficient and that the document undermined resolution 1244 (1999). The Kosovo Serb leadership also distanced itself from it, as did some Kosovo Albanian leaders.

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3. Following the launch of the "Standards for Kosovo" document, and under the auspices of a Steering Group co-chaired by my Special Representative and the Kosovo Prime Minister, UNMIK and the Provisional Institutions convened meetings of five working groups covering the eight sets of standards. The first task of these working groups is to prepare a work plan for the implementation of the standards, which will set out the policies and specific, concrete and measurable steps to be taken by the Provisional Institutions to reach the standards, including, wherever possible, a timetable for the implementation of those policies and steps. The working groups consist of representatives from UNMIK and the Provisional Institutions. However, despite repeated invitations by my Special Representative and Kosovo Albanian leaders, Kosovo Serb representatives have not yet participated in the working groups.

II. Functioning Democratic Institutions

4. The announcement of the "Standards for Kosovo" document and, in particular, the launch of the process of review of standards implementation has led to a renewed atmosphere of cooperation between UNMIK and the Kosovo Government. However, cooperation on privatization and direct dialogue with Belgrade remains difficult.

5. UNMIK completed the transfer of responsibilities under chapter 5 of the Constitutional Framework to the Provisional Institutions at the end of 2003. Belgrade and Kosovo Serb leaders have challenged this transfer as going beyond resolution 1244 (1999) and the Constitutional Framework. While UNMIK remains committed to the establishment of effective provisional self-government, it will also seek to involve the Provisional Institutions in an advisory and consultative capacity within the specific areas reserved for my Special Representative in chapter 8 of the Constitutional Framework. This increased involvement will not affect the powers and responsibilities reserved to my Special Representative. As part of this process, UNMIK is reviewing the Government's proposal for the creation of a number of offices within the Office of the Prime Minister tasked with internal coordination and liaison with UNMIK and will strongly recommend that such offices be staffed by civil servants in order to provide continuity, accountability and adequate representation of all communities. To improve coordination between UNMIK and the Provisional Institutions, my Special Representative now has a Government Liaison Officer within his Office.

6. Political appointees throughout the Government have begun to take a more active role in executive functions and responsibilities. Although, on the one hand, that has resulted in some successes in moving legislation and policy decisions forward, it has, on the other, resulted in blurring the division of responsibilities between political appointees and civil servants. Civil servants are under increasing pressure to act on the basis of political directives even if that implies not following proper procedures and acting against the Kosovo Civil Service Code of Conduct.

7. During the reporting period, 20 legal initiatives and 8 draft laws were approved by the Government. The preparation of legislation has continued to improve. With the assistance of the European Union, a Standardization Unit has been set up in the Office of the Prime Minister, which checks all laws for compatibility with European Union law and the Constitutional Framework. An

inter-ministerial Working Group on the Legislative Strategy for 2004 identified 117 laws that should be drafted before the end of this administration's term in late 2004. Although the strategy includes a comprehensive list of laws, it does not provide a clear sense of priorities. On important issues such as standards, dialogue with Belgrade and privatization, policy decisions continued to be made without proper preparation and documentation. The lack of background materials and discussion papers has been previously raised on various occasions by a number of Ministers. The appointment of a Secretary of Government, tasked with preparing the agenda and vetting the documents for government meetings, has so far not raised the quality of preparations. Documents frequently continue to be submitted in only one of the official languages. The Ministries either do not issue correspondence in Serbian, or do so only with delay.

8. The functioning of the Kosovo Assembly in the preparation of legislation has slowly continued to improve. The Assembly approved 8 laws and, during 2003, a total of 28 Assembly laws have been promulgated by my Special Representative. The public hearings held by the Assembly during the reporting period on the draft gender equality law, draft anti-discrimination law and the draft health law are indicative of some increased transparency in its work. The Budget Committee and Committee for Finance and Economy held twice-weekly joint meetings with municipalities and offices within the Provisional Institutions and UNMIK in order to discuss individual budget proposals for 2004. On 31 December, my Special Representative promulgated the Kosovo Consolidated Budget for 2004 as an UNMIK regulation after consultation with the Economic and Fiscal Council. The draft budget was prepared by the Kosovo Government and approved by the Assembly. The projected expenditures of €632 million will be fully financed by Kosovo's own revenues. The 2004 budget is the first to be prepared and managed by the Kosovo Minister of Finance and Economy.

9. In some instances, however, the Assembly has reverted to adopting declarations and decisions in areas which are clearly outside its responsibility in accordance with the Constitutional Framework. Among them was the Assembly's approval of a recommendation of its Committee on Judicial, Legislative and Constitutional Framework Matters to abrogate "all constitutional, legal, and sub-legal acts, decisions, and other acts issued by Serbia and Yugoslavia after 22 March 1989". My Special Representative immediately declared the Assembly's decision to be beyond its competence and without validity and effect. On 22 December, the Kosovo Assembly passed a declaration that called for the abolition of the right of Kosovo Serbs to vote in the 28 December Serbian parliamentary elections, leading to a walk-out by the Coalition Return for the first time in many months. UNMIK stated that it would not countenance interference with anyone exercising democratic rights in Kosovo. The Serbian parliamentary elections took place in Kosovo without any incident. Recent plenary sessions of the Assembly have been marked by procedural violations and inconsistencies in the counting of votes. A significant number of Assembly members have raised objections, but the practice has not yet been corrected. A working group on proposing amendments to the Constitutional Framework was established in October. If the proposals are supported by two thirds of the Assembly, my Special Representative will take a decision on which of the proposed amendments, if any, are acceptable and compatible with Security Council resolution 1244 (1999) and the Constitutional Framework.

10. Coalition Return participated actively in plenary sessions and continued to use the special procedure under the Constitutional Framework, which provides safeguards for the vital interests of communities. While that special procedure does not prevent Coalition Return from being outvoted, it does ensure that members of communities can effectively challenge a law adopted by the Assembly if they consider that the vital interests of their community are affected. For example, when the Assembly rejected the recommendations of a special panel formed after the Coalition Return's objections to a draft law on a population and housing census, my Special Representative did not promulgate the law and returned it to the Assembly for reconsideration and necessary adjustments to ensure the right of all communities to equitable participation in the census.

11. A modest positive trend in the functioning of the municipalities continued. Throughout 2003, and in particular during the reporting period, several municipal assemblies displayed a commitment to public consultations; however, there remains much room for improvement in that area. In addition, for the first time, all of Kosovo's municipal assemblies completed their budgetary processes for 2004 before the promulgation of the 2004 budget, allowing the municipal administrations to access funds earlier. The functioning of joint Kosovo Serb-Kosovo Albanian municipal administrations also improved slightly during the reporting period, particularly in the Gnjilane region. Still, UNMIK Municipal Representatives had to intervene in order to suspend decisions relating to, inter alia, the misuse of public funds and attempted misappropriation of land under the administration of the Kosovo Trust Agency. UNMIK also had to step in on occasion in order to ensure compliance with the rule of law. As a result, there have been signs of improvement in the municipalities' actions within the scope of their responsibilities under UNMIK Regulation 2000/45 on local self-government in Kosovo. The functioning of the mandatory municipal committees has improved slightly compared to the last reporting period. In 11 of the 27 mixed municipalities, Communities Committee meetings are held on a monthly basis. The improvement reflects the impact of recently issued UNMIK administrative instructions clarifying the mandate and role of the committees. The Democratic Party of Kosovo is still boycotting participation in the Communities Committee in Vitina, while Kosovo Serbs are boycotting the work of the respective Communities Committees in four other municipalities. In relation to the municipal budget for 2003, fair-share financing results at the end of September 2003 (the latest date for which figures are available) showed that there was further incremental improvement in minority spending through the municipal budgets. Eight out of 27 mixed municipalities met the minimum levels of fair-share financing in all three budget lines, up from six in the first half of 2003. Six municipalities achieved fair-share financing in two out of three budget lines, as compared to only four in the first half of 2003.

12. Following political gridlock, which had affected the functioning of some municipalities earlier in 2003, most municipalities were active in the field of local law-making in the reporting period. However, minorities still have very little impact on the decision-making process in municipalities; the involvement of committees and civil society in the drafting process remains rare; and municipal regulations are not properly implemented and enforced. Translation of official documents in many municipalities remains unsatisfactory and relies on UNMIK initiatives and resources. The Statistical Office of Kosovo (within the Ministry of Public Services) has directed the "standardization" of municipal and village names by using the

Albanian name only, in violation of UNMIK regulations. UNMIK has insisted with the Minister of Public Services that the rule of law must be upheld and applicable legislation complied with. A joint UNMIK-Provisional Institutions review process has been launched.

13. The Council of Europe Decentralization Mission officially released its report entitled "Reform of Local Self-Government and Public Administration in Kosovo — Final Recommendations", after nine months of wide-ranging consultations with local and international interlocutors. The initial reaction of some local leaders was cautious and critical. The report is currently under review by UNMIK and the Provisional Institutions. In Mitrovica, the UNMIK Administration continued to implement infrastructure projects and service delivery programmes. A second bus service was started, connecting communities in the northern and southern part of the city. However, Belgrade-supported parallel structures in the northern part of the city continued to exist. The Serb members of the Advisory Board have been granted control of the €1 million received monthly from Belgrade, designated for local government purposes. The Serb local staff members of the UNMIK Administration are also receiving salaries from Belgrade in addition to their Kosovo civil service salaries.

14. In addition to Mitrovica, the work of other municipalities was also hampered by Belgrade-supported parallel structures, which are detrimental to inter-communal relations and undermine the efforts of legitimately elected municipal officials. Even where Kosovo Serb employees wish to work as part of the Provisional Institutions, they are often pressed to choose sides by the Serbia and Montenegro/Republic of Serbia Coordination Centre for Kosovo and threatened with the withdrawal of pensions and other social benefits. In the health sector, the Serb Ministry of Health has continued to exercise control over the Health House in Gracanica (Pristina region) and its branches since September 2003. The Coordination Centre, whose activities have increased during the reporting period, appears to have become better organized and better funded, executing projects and becoming more committed to provide the Kosovo Serb community with social and administrative services which they otherwise lack or which compete with structures of the Provisional Institutions. The Centre has attempted to formalize the status of its offices in Kosovo, but it declined to provide information on the exact function and responsibilities of each office, as required by UNMIK.

15. Minority employment, at the central and municipal levels, has slightly improved, but continues to be unsatisfactory. The recent hiring freeze in the Kosovo civil service, which did not, at UNMIK's request, apply to minority communities, has led to an increase of approximately 1.5 per cent in the number of minority civil servants, but none of the Provisional Institutions has reached target levels. Kosovo Serb and non-Serb minority community members together constitute about 10 per cent of the civil servants employed within the structures of the Provisional Institutions at the central level. The large disparity in the proportional representation of non-majority communities in senior level positions, with a mere 1.2 per cent of minority civil servants holding such posts, persists. Within the 30 municipalities, minority representation seems to be slightly higher; however, the representation of municipal minority employees in senior level positions is less than 1 per cent. Overall, Kosovo Serbs constitute 12 per cent and non-Serb minorities 3.3 per cent of all municipal employees (municipal administration, health and education). The trend towards politicization of the civil service continued with UNMIK finding that there

are indications in 22 municipalities that the appointment of senior civil servants has been made predominantly on the basis of political considerations.

16. The Provisional Institutions still have a poor record of placing women in high-level and managerial positions. The presence of women in legislative bodies reflects only the minimum legal requirements for gender representation in electoral lists, with 33 out of 120 seats in the Kosovo Assembly and 28 per cent of all municipal assembly seats being occupied by women. In the public sector, there is only 1 woman minister out of 10 ministers, 1 woman permanent secretary out of 9 permanent secretaries, 7 women out of 18 parliamentary committee heads, and only 2 women out of 30 chief executive officers in municipalities.

17. The Government has still not forwarded a draft law on the Independent Media Commission to the Assembly. In the meantime, the Temporary Media Commissioner continues to ensure that Kosovo media conform to international standards. As part of that task, a Revised Policy on Radio and Television Licensing was issued, allowing for limited exceptions to the current licensing moratorium. The exceptions cover applications for licenses for areas that are currently underserved by local media and applications for multi-ethnic stations, in order to promote and encourage broadcasters in Kosovo who are committed to multi-ethnic programming and thus serve as a significant source of constructive, inter-community dialogue. During the reporting period, the Temporary Media Commissioner also processed 10 complaints about media content. The Commissioner's guidelines on enforcement of copyright protections entered into force on 1 January. A contract signed between the public broadcaster, Radio-Television Kosovo (RTK), and the Kosovo Electricity Company (KEK) in November established a public broadcasting fee collection system to provide some 57 per cent of the total operating budget of RTK.

18. UNMIK has begun to prepare for the 2004 Kosovo-wide Assembly elections, with the establishment of the operational arm of the Central Election Commission (CEC). The CEC secretariat will be independent from, yet supported by the Provisional Institutions. The Organization for Security and Cooperation in Europe will retain control over sensitive aspects of the election operation, including the management of the voters list, the operation of the central count and results centre and supervision of the by-mail voter programme. The Elections Working Group continued to meet to formulate recommendations to my Special Representative on the regulatory framework for the 2004 elections, to be presented by the end of January.

III. Rule of law

19. There has been a stabilizing trend in the crime situation in Kosovo since 1999, resulting in an improvement in the overall security environment, although there is room for further improvement. During the reporting period, the overall trend has continued to be a decrease in serious crimes, despite a peak in November. In mid-2003, there was an upsurge in violence against the Kosovo Serb community. However, high profile crimes against Kosovo Serb community members decreased significantly in the last three months of 2003, as did ethnically motivated crimes. There were several worrying attacks on local Kosovo Police Service (KPS) officers during the last three months of 2003. The murder of two KPS officers near Decani (Pec region) on 24 November followed the murder of another in Djakovica (Pec

region) on 6 September, as well as attacks against other KPS officers in September. That may be a consequence of the fact that members of the KPS are increasingly involved in criminal investigations and therefore perceived as a threat to organized crime. However, one of the possible lines of enquiry is that the incident in Decani may have resulted from unresolved differences arising from the conflict between Kosovo Albanian factions. There have also been incidents directed at UNMIK staff.

20. As a result of the improved security and public order situation, public order remained stable. The number of demonstrations declined significantly. During the October to December period, there were 24 public demonstrations, as compared to 31 in September alone and 79 between June and August. Two significant public disorder incidents occurred. In southern Mitrovica, a crowd demonstrated against the decision to take down an Albanian flag that had been illegally raised over the Mitrovica municipality building. In an incident on 6 December, a violent mob attacked a World Bank delegation and the Kosovo Prime Minister in the northern part of Mitrovica, during which one member of the World Bank delegation received minor injuries and four vehicles, including two police vehicles and a United Nations bus, were burned. That attack demonstrated that the perpetrators are organized and prepared to use violence.

21. The increasing involvement of Kosovo's residents in the KPS is yielding results. There have been achievements in the fight against organized crime and terrorism. In the case of the bombing of a railway bridge in northern Kosovo in April 2003, investigators identified a ring of conspirators, arrested one suspect and issued warrants against other perpetrators. On 27 October, police arrested five Kosovo Albanian males on charges relating to war crimes committed against other Kosovo Albanians in 1999. Seven persons wanted in connection with various terrorist activities were also arrested during the reporting period. The Counter-Terrorism Task Force investigated seven cases, arrested three persons and undertook several joint anti-terrorist operations along with the Kosovo Force (KFOR), leading to the seizure of important evidence. On 9 October, the Kosovo Organized Crime Bureau in cooperation with UNMIK Customs, seized 36 kilograms of heroin at the Vrbnica border crossing with Albania and arrested three suspects. This was the largest seizure of heroin in four years. On 3 December, UNMIK Police and Customs officials intercepted 6 kilograms of narcotics at Pristina Airport.

22. Since UNMIK acquired the technical capability to institute electronic covert measures in September 2003, drug seizures and investigations relating to corruption, white-collar fraud, organized crime and terrorism have increased. That, combined with a sharp increase in prosecutions with a conviction rate of 92 per cent, has considerably improved UNMIK's response to those priority areas. UNMIK also established an Investigation Task Force comprising representatives from the United Nations Office of Internal Oversight Services, the European Union Anti-fraud Office and the Financial Investigation Unit. Its mandate is to initiate, conduct and coordinate administrative investigations to identify fraud and corruption involving UNMIK, the Provisional Institutions, independent bodies and offices established under the Constitutional Framework, as well as publicly owned enterprises, other entities operating with public assets and any other institution or entity performing activities funded in whole or in part from the Kosovo Consolidated Budget. On 10 October 2003, in a joint operation with the Kosovo Customs Service, the Economic Crime Unit of UNMIK police arrested three customs officers and a businessman on charges of fraud and corruption involving smuggling of petrol.

23. UNMIK continues to pursue a regional approach to combat organized crime. On 31 October, a memorandum of understanding on police cooperation was signed by UNMIK with Montenegro adding to the already existing protocols with the Republic of Serbia, the Republic of Albania and the former Yugoslav Republic of Macedonia. That regional approach achieved results on 29 November 2003 when a Kosovo Albanian businessman abducted in Serbia proper was rescued and five Serbian abductors arrested during the first joint operation by UNMIK police and Serbian police. UNMIK also continued to participate in regional initiatives, such as those under the auspices of the Stability Pact, in areas such as terrorism, border control and organized crime.

24. The KPS now numbers 5,704 serving officers, of whom 846 are women and 880 are from minority communities. Four additional police stations were placed under KPS command during the reporting period, bringing the total of such stations to 10. As the KPS approaches a sufficient number and capacity, UNMIK continues to downsize the international civilian police component and its current strength is 3,689. KPS officers now comprise half of the staff of units such as the Trafficking and Prostitution Investigation Unit and the Centralized Drugs Unit. In addition, other units such as the Central Criminal Investigation Unit and Kosovo Organized Crime Bureau now include KPS officers.

25. Efforts to increase minority participation in Kosovo's justice system continued with the appointment on 4 December of 26 new Kosovo judges and prosecutors, including six judges and one prosecutor from the Kosovo Serb community. That brings the total number of Kosovo judges to 316, including 90 per cent Kosovo Albanians, 5 per cent Kosovo Serbs and 5 per cent from other ethnic groups. Prosecutors now number 53, of which about 10 per cent (including 4 per cent Kosovo Serbs) are from minority ethnic groups. Women comprise 25 per cent of judges and 17 per cent of prosecutors. A Municipal Court department and a minor offences court became operational in the Kosovo Serb majority area of Strpce (Gnjilane region), a Court Liaison Office opened in Gracanica (Pristina region) and more are being opened in Novo Brdo (Gnjilane region) and Gorazdevac (Pec region) to increase access to justice for Kosovo Serbs. However, Belgrade has yet to implement provisions of the joint declaration signed in July 2002 on the preservation of pensions and other benefits in order to facilitate the integration of Kosovo Serbs into the Kosovo judicial and prosecutorial system. That led many applicants from the community to withdraw their candidature. Owing to continuing support by the Serbian government, parallel judicial structures still exist in Leposavic, Zubin Potok, and Zvecan (Mitrovica region) and Strpce (Gnjilane region) despite the opening of UNMIK courts in those areas. Parallel "district and municipal courts of Pristina" operate in the southern Serbian city of Nis. That district court issued an arrest warrant for the head of the Kosovo Protection Corps (KPC), resulting in his brief detention on 22 October by Slovenian authorities while in transit through Ljubljana airport. He was released on the intervention of my Special Representative, who informed the Slovenian authorities of the invalidity of the arrest warrant due to lack of jurisdiction.

26. On 4 November, the Dubrava Commission submitted its findings on the riot and fire in Dubrava prison on 4 September, which led to the deaths of five prisoners. The Commission concluded that rioting prisoners were responsible for the loss of life, but that the lack of educational and recreational activities in the prison were also underlying causes of the riot. The Commission made wide-ranging

recommendations relating to security, living conditions, training and service conditions for correctional staff, funding mechanisms and incident management, which are being addressed within current financial constraints. Although prison officials have managed to improve conditions and to stabilize the situation, the situation at Dubrava, as well as at other prison facilities, remains tense owing to crowded conditions throughout the penal system.

IV. Freedom of movement

27. Although freedom of movement has improved somewhat, it still remains a problem in certain areas of Kosovo. Continuing incidents of violence and vandalism, albeit at a lower level than in mid-2003, continue to affect Kosovo's minority communities and have a negative impact on their sense of security. They also undermine confidence in the police, since very few perpetrators have been prosecuted, and since municipal officials tend to play down the incidents and rarely go beyond verbal condemnation. In response to Kosovo Serbs' concerns, KFOR and UNMIK have enhanced security measures in several places, including in Kosovo Serb majority areas and near Orthodox churches. However, given NATO decisions on the reduction of force levels in Kosovo, fixed security points will continue to be phased out. Controls of movement between northern and southern Mitrovica have been lifted.

28. The civil service bus line continues to assist with the daily transportation of minority civil servants to their workplaces in Pristina and other locations in Kosovo. The popularity of the service has grown among minority and majority populations alike. The UNMIK Humanitarian Transport Service (aimed specifically at minorities) transports an average of about 35,000 passengers per month. The local service provider, a Kosovo Serb company, has been operating 25 routes for the past few months with very few incidents. However, there has been an increase in the number of stone-throwing incidents directed at the buses in recent weeks. In addition to its daily operation within Kosovo, the service provides vital links that connect Kosovo Serb residents with onward transportation to Serbia proper. While about one quarter of the Kosovo municipal administrations now provide transportation for their minority staff, the continued failure of majority-dominated municipalities to adequately fund the vehicle requirements of the Municipal Community Office limits the effectiveness of those offices and their ability to protect minority interests. The "freedom of movement" train now includes Gracanica (Pristina region) on its route and currently transports a monthly average of 50,000 passengers.

V. Sustainable returns and minority rights

29. The €7 million allocated by the Kosovo Government from the 2002 Kosovo Consolidated Budget surplus to support returns has been directed to a broad range of returns initiatives throughout Kosovo, with €5 million used to fill funding gaps in projects endorsed by municipal working groups and included on the Returns Coordination Group's list of priority projects. The remaining €2 million was allocated to 39 municipal projects across 21 municipalities that contribute positively

to returns, either directly, or by contributing to municipal efforts to build a tolerant and multi-ethnic society.

30. The 2004 Strategy for Sustainable Returns, launched in December 2003, provides detailed information on funding needs for 2004, amounting to €38.5 million. Numerous projects, which are already funded, are scheduled to begin in the spring of 2004, and more than 75 per cent of the funds needed relate to both returns projects and individual returns. The 2004 strategy also includes expanded participation of the Provisional Institutions and internally displaced persons in the return process, and an improved information flow to the internally displaced, and addresses property-related obstacles to return. The funding appeal for 2004 returns was presented in December to donors in Pristina, jointly with the Provisional Institutions, and in Belgrade, jointly with the Coordination Centre for Kosovo and UNHCR. Cooperation with the authorities in Belgrade on returns projects has improved during the reporting period. The Coordination Centre and UNMIK meet every week to ensure information-sharing and to discuss technical issues. The Provisional Institutions Inter-Ministerial Coordinator for Returns frequently participates in those meetings.

31. The rate of minority returns has continued to increase, although the overall number of minority returns remains low. During 2003, a total of 3,629 persons returned to communities where they are in the minority, including 1,487 Kosovo Serbs, 1,387 Roma/Ashkali/Egyptians, 377 Bosniaks, 133 Gorani and 245 Kosovo Albanians. Returns projects for Kosovo Serbs, Kosovo Albanians, as well as Roma, Ashkali and Egyptians are ongoing in 16 municipalities. While security and freedom of movement remain problems, returns are occurring in many areas where it would have been impossible earlier in the year, including the first Kosovo Serb returns to the southern Mitrovica region.

32. Municipal authorities are playing a supportive role in virtually all locations where returns projects were under way or are envisaged in the near future. As in the past, municipal authorities routinely participate in "go-and-see" visits, and also have travelled as part of "go-and-inform" visits to speak to potential returnees. That support, however, does not always effectively translate into obstacle-free returns at a community or village level, where resistance can be encountered, leading to security concerns. While such resistance is generally dealt with effectively through dialogue efforts, including with the involvement of municipal authorities, when such steps are not taken, the results can be serious, as illustrated on 10 December when 11 Kosovo Serbs who attempted to return spontaneously to Klina town (Pec region) were met by Kosovo Albanian protesters and had to be evacuated by KFOR. Another incident occurred on 13 November when seven displaced Kosovo Serbs participating in a "go-and-see" visit to Musitiste near Suva Reka (Prizren region) were met by a large group of Kosovo Albanian protesters, who attacked their convoy with bricks and stones. Those incidents should, however, be seen in the context of the more than 200 such visits that have been successfully carried out across Kosovo in the past two years and the dozens of returns projects that proceeded in 2003 without difficulties. In the aftermath of the two incidents, the Kosovo Albanian leaders of the Provisional Institutions and political parties gave assurances that they will work with municipal and party leaders at the local level to address existing obstacles and facilitate sustainable returns.

33. There has been little significant change in the access of minority community members either to information in their own language or the ability to freely use their language before courts, agencies and public bodies. The personnel and resources allocated for translation of official documents and interpretation by the Provisional Institutions during meetings remained unsatisfactory, particularly in the municipalities. Official documents, if available at all, are still often available only in one language. The institutional arrangements in terms of personnel and resources allocated for translation of official documents and interpretation during meetings are also unsatisfactory, particularly within the municipalities. It has also been noted that Kosovo Ministries are sending documents to the municipalities in Albanian only. Very few municipalities respect legal provisions for bilingual public signs. Clear divisions remain between the public and social services used by Kosovo Serbs and Kosovo Albanian communities, even in ethnically mixed areas. Such problems are likely to worsen in the future owing to a lack of progress in the key area of education among all communities. Only one new mixed-ethnicity school opened during the reporting period. Neither Kosovo Serb nor Kosovo Roma schools provide Albanian-language classes and Kosovo Albanian schools fail to offer courses in minority languages. If that trend continues, the next generation will be further divided by their inability to understand each other's languages. The University of Pristina began offering classes in the Turkish and Bosniak languages in the faculty in Prizren. In order to address concerns regarding the content of textbooks, a Council on Curriculum and Textbooks was established in order to ensure that textbooks prescribed in Kosovo schools are non-discriminatory, free from prejudices and do not offend any ethnic community.

34. Access to public services and public utilities throughout Kosovo, even if improved, is still problematic. The Kosovo Electric Company (KEK) continues to disconnect service to minorities who have not paid debts accumulated by previous illegal occupants. The public enterprises still fail to employ a fair proportion of minorities and remain essentially monoethnic. The existence of parallel structures as well as restrictions on freedom of movement also adversely impact access to services. At the same time, minority communities remain far behind in the payment of utility bills. Nevertheless, there are positive examples of cooperation. The new system of payment of basic pensions, war invalid pensions and social assistance by private banks, with no direct UNMIK or KFOR support, is proving to be successful, even in minority areas.

VI. Economy

35. The key issue in the economic field during the reporting period was privatization. While there remains a general political consensus in Kosovo on the need for privatization in order to further Kosovo's economic development, differences of view emerged as to the legal basis for the process and the operational policies governing the privatization of socially owned enterprises in Kosovo. After several weeks of dispute, the Kosovo Trust Agency Board, responsible for the privatization process, decided on 16 December to resume the privatization of all 23 enterprises from the first and second wave of tenders and agreed that those from the third wave would be resumed in the near future.

36. Kosovo remains one of the poorest economies in a poor region. Although statistical data is still fragmented, the Kosovo Ministry of Finance and Economy and

international financial institutions have drastically adjusted gross domestic product (GDP) figures downwards for the period 1999-2003. The GDP for 2003 is now estimated to be €1.34 billion, or approximately €700 per capita. Twelve per cent of the population lives in extreme poverty, and 80 per cent of private farms are between 0.5 hectares and two hectares, a size that is barely enough to feed a family. Growth is still driven by two main factors: foreign assistance and remittances from abroad. Thus, Kosovo's economy is unable to maintain current growth and welfare levels without donor assistance. Owing to growing exports and declining imports, Kosovo's trade balance for 2003 improved from the 2002 deficit of €1.7 billion, but is still grossly negative.

37. Unemployment remains at between 50 and 60 per cent. Job creation will be the most pressing challenge for the years to come. Projected changes in the demographic structure of the population indicate that Kosovo will need to increase the number of jobs by more than 50 per cent over the next five years in order to absorb the large number of new job-market entrants. Kosovo's labour force currently stands at about one million, 15 per cent of whom are "officially employed", i.e., registered as income tax payers. Officially registered unemployment has risen to 276,000 (July 2003). The unemployment rate does not take into account informal employment in the grey economy, which is estimated to be high but mainly constitutes underemployment.

38. Nevertheless, the Kosovo economy continues to grow, although the projected rate of 4.5 per cent annual growth is lower than in previous years, mainly due to the withdrawal of international donors. Bank account balances for both the government and the private sector (including commercial public enterprises) continued to increase. However, the internal structure of deposits has changed; enterprises save more, while individuals save less. That trend is likely to continue in line with the decline in workers' remittances, donor spending and residential construction activity. Tax collection also increased, but a major portion of Kosovo's income continued to come from customs and excise. Total revenue collected by Customs in 2003 was €424.1 million (€72.3 million in customs duty, €171.3 million in excise and €180.5 million in VAT). That was €63 million (18 per cent) over target. The increase is due to more experienced and trained officers, better control of the cigarette market because of the requirement for banderols under the tobacco regulation; the deployment of mobile anti-smuggling enforcement teams and improved information flow from neighbouring customs administrations. For the first time since 1999, internal excise tax was collected and produced €2 million from breweries, wineries and distilleries.

39. Future progress for Kosovo's economy is dependent on a number of developments, including necessary improvements in the investment climate through legislative and institutional efforts, as well as fiscal and budget policies with a strong incentive element favouring investment. Improvements in basic infrastructure, particularly electricity, and development of the financial sector are also necessary.

40. Trade policy is now jointly developed by UNMIK and the Provisional Institutions and is aimed at integrating Kosovo into the region and wider Europe, as well as providing additional incentives to investors and exporters. Kosovo's trade with the European Union/European Economic Area is developing slowly, in particular owing to the high institutional requirements and standards to be met. At

present, Kosovo's most important trade flows are with the rest of Serbia and Montenegro, Albania, and the former Yugoslav Republic of Macedonia. The first free trade agreement entered into force on 1 October 2003 with Albania. In the first six weeks of implementation, exports from Kosovo to Albania more than doubled. In this context, UNMIK and Albania signed two agreements on cooperation in the field of public veterinary services and plant protection. Further attempts to enter into free trade agreement negotiations with other partners in the region have encountered delays due to external questions regarding UNMIK's authority to conclude such agreements. The Kosovo Government and UNMIK together participated in the third meeting of the European Union Stabilization and Association Process Tracking Mechanism for Kosovo with the European Commission to discuss trade and customs issues, key economic legislation and competition questions.

41. The energy situation remains a significant problem. Currently, less than 40 per cent of the electricity supplied is paid for by customers. That contributes to the inability of the Kosovo Electricity Company (KEK) to maintain a constant power supply. It is also a major deterrent to foreign investment and inhibits economic development. An international management team for KEK is being sought to improve performance. On 10 December 2003, UNMIK signed a revised memorandum of understanding with 15 European countries on the establishment of a regional energy and natural gas market. The Office of the Auditor General has been established. Local auditors have been recruited and they are participating in a comprehensive training programme. Audits were carried out in a number of publicly owned enterprises during 2003, including KEK, the Post and Telecommunications Company, UNMIK Railways, Pristina Airport and the major publicly owned enterprises in the water, waste and irrigation sectors. The audits have brought to light shortcomings in such areas as accounting, corporate governance and human resources. The Kosovo Trust Agency is now following up on the major recommendations of the audits, by addressing immediate and medium-term goals to improve the performance of the enterprises. The Investigation Task Force will follow up on cases of suspected fraud and misappropriations of resources.

VII. Property rights

42. The Housing and Property Directorate has improved its rate of processing of cases and delivery of decisions on residential properties. Since the closure of the claims deadline in July 2003, 97 per cent of all claims have been notified and 44 per cent have been resolved. Almost all of the Directorate's caseload is on target to be resolved by the end of 2004. So far, only 1.8 per cent of Claims Commission decisions have been subject to reconsideration requests. Directorate procedures have also been reformed to be more transparent and provide safety checks to ensure that the claimants understand their rights and that their requests are implemented. The Directorate's legal mandate covers only residential property and there is as yet no effective mechanism to reclaim agricultural land that is illegally occupied.

43. Over 900 evictions were carried out in 2003. That was lower than planned due to an increase in the number of voluntary vacations of property, a delay in evictions where the owner was not ready to reoccupy immediately due to an increasing trend towards destruction or reoccupation of properties following an eviction, and a large number of successful claimants asking the Directorate to place their properties under administration to use as humanitarian housing. Increased cooperation with the police

has also improved the security of evicted properties. The Directorate has taken properties in the mostly Kosovo Serb northern part of Mitrovica under administration and in mid-December it also carried out its first enforcement action there.

44. The Directorate is beginning to formulate plans to hand over its residual functions upon the completion of its mandate. There are now over 3,000 properties under its administration for humanitarian housing. However, pilot programmes to allow municipality employees the possibility to administer properties, or to identify cases for humanitarian accommodation, have had mixed results. In Pristina, the municipal pilot programme was suspended owing to abuse; Pristina municipality also proved unable to provide the Directorate with people who qualified for humanitarian accommodation in properties under administration. The Directorate's major challenge for the coming year is that of funding. Currently, there is a funding shortfall of €2.2 million for 2004.

VIII. Relations with Belgrade

45. My Special Representative devoted major efforts to launching the direct dialogue on practical issues of mutual interest between Pristina and Belgrade to which the parties committed themselves at the European Union-Western Balkans summit in Thessaloniki in June 2003. The decision of the Kosovo Prime Minister not to attend the launch of the dialogue in Vienna on 14 October 2003 undermined the value of the initiative and slowed progress. The Kosovo Assembly also failed to endorse the dialogue, although the Assembly President and the Kosovo President did attend the Vienna meeting, as did the Serbian Prime Minister and Deputy Prime Minister. In the weeks following the launch, the Provisional Institutions remained reluctant to engage in the dialogue. With the introduction of the review mechanism and the "Standards for Kosovo" document, which includes dialogue as one of the standards, a more favourable climate has been created for the Provisional Institutions to accept the concept of dialogue. Nevertheless, the Kosovo Government has yet to appoint multi-ethnic delegations for each of the four working groups. The authorities in Belgrade have generally adopted a more forthcoming attitude towards the dialogue. However, statements in the course of the preparation of the Standards for Kosovo and in the wake of the Serbian parliamentary elections have shown that the support for the dialogue is not unambiguous.

46. There has been only limited direct contact at the working level between the Provisional Institutions and Belgrade authorities during the reporting period, although the Ministry of Labour and Social Welfare continued low-level contacts with counterparts in Belgrade. UNMIK's cooperation with the Coordination Centre for Kosovo on returns and with Serbian police in joint operations has been productive but has not stimulated direct cooperation between Belgrade and the Provisional Institutions. UNMIK discusses cultural issues, including restoration and preservation projects, with the relevant authorities in Belgrade in the context of the working group on culture. Informal contacts between the two sides have taken place during international conferences or workshops; however, they have had no practical results.

IX. Kosovo Protection Corps

47. Efforts to root out KPC members with links to extremist organizations and organized crime took a step forward in December, when a disciplinary measure taken by my Special Representative led to the suspension of 12 members pending a police investigation. That resulted from a joint KFOR/UNMIK enquiry, begun after the bombing of a railway bridge in northern Kosovo in April 2003, into allegations of association of some members of the KPC with organized crime, abuse of function and other illegal activities. That action was seen as an "attack" on the KPC by Kosovo Albanians and KPC members, who initially resisted the decision. The decision was subsequently accepted and carried out due in part to the positive intervention by some Kosovo Albanian political leaders. In order to improve KPC members' understanding of their organization's role and of their own, a range of personnel and administrative policies have also been developed, including a draft terms-of-service regulation, which now form part of a comprehensive KPC plan for 2004.

48. During the reporting period, the work of the KPC as a civil emergency agency continued to improve. More members were trained to carry out a number of civil emergency-related tasks. The KPC is beginning to perform its mandated functions with growing professionalism, and intervenes 30 times a month on average in various emergencies, including forest fires and floods. Outreach activities in minority communities continued successfully. KPC medical units are operating weekly mobile clinics to the Croat village of Letnica; elsewhere, activities include support to minority areas with fuel and wood supplies. The KPC have built fire stations in the mixed communities of Kamenica (Gnjilane region) and Dragash (Prizren region) and water supply lines are being constructed in Novo Brdo (Gnjilane) and the mixed area of Novake (Prizren region).

49. The KPC has reduced its active strength to agreed levels. The present active membership stands at 3,029, with 131 non-Kosovo Albanian members, 31 of whom are Kosovo Serbs. The plan for the reduction of one third of KPC bases is being implemented and the target of June 2004 is likely to be reached. During the reporting period, there were 29 major cases of non-compliance and 27 minor cases. Minority employment is slightly less than half the target quota of 10 per cent of the KPC membership. The most serious challenge facing the KPC is a lack of resources at a time when the organization urgently requires funding to improve its equipment holdings, complete its relocation plan and continue the training work done by the International Organisation for Migration. Lack of funding has slowed and could seriously hinder further progress. Some €40 million is required over the next three years, with a first tranche of €15 million sought for 2004, in addition to the allocation from the Kosovo Consolidated Budget. The resources would be used to finance equipment, training, infrastructure, project funding in minority areas and logistics development.

X. Observations

50. The establishment of a mechanism, under the Council's authority, to measure the progress made by Kosovo's Provisional Institutions in meeting the standards in the "standards before status" policy is a most welcome development. The "Standards for Kosovo" document and the ongoing development of the implementation work

plan, based on the original standards paper, will provide a clear framework within which the Provisional Institutions must act in compliance with resolution 1244 (1999), the Constitutional Framework and the law applicable in Kosovo. The implementation of the standards does not, of course, prejudge the decision to be made by the Security Council on the initiation of the future status process, nor does it prejudge Kosovo's future status.

51. I intend to provide the Council with assessments on the progress of the Provisional Institutions on a quarterly basis. The way forward lies in making progress on the standards. The responsibility — and accountability — for achieving progress on the standards rests with the Provisional Institutions in the areas under their responsibility. UNMIK will continue to fully and effectively implement its responsibilities under resolution 1244 (1999) and the Constitutional Framework, which include supporting the ability of the Provisional Institutions to implement those standards and consolidate the Provisional Institutions. To do so, my Special Representative has taken further steps towards increasing cooperation and transparency with the Provisional Institutions, including by establishing a joint implementation process to make progress on the standards.

52. The implementation of the standards will require genuine commitment by all of Kosovo's leaders and communities and effective and fair delivery by the Provisional Institutions on standards implementation, the consolidation of their ability to effectively exercise their responsibilities under chapter 5 of the Constitutional Framework and the achievement of true multi-ethnicity within the Provisional Institutions. It will be important that Kosovo's leaders do not allow symbolic issues to distract from the all-important work of the practical improvement of residents' daily lives. A first and early indication of a commitment to concrete results will be progress on the direct dialogue on practical matters between Belgrade and Pristina. I call upon the Provisional Institutions to establish multi-ethnic delegations for the four working groups of the direct dialogue as soon as possible. I also call on Belgrade to complete the necessary preparations.

53. Multi-ethnicity, tolerance and equal rights for all communities must be upheld by all local leaders and institutions. The United Nations stands firmly behind the principle of multi-ethnic representation and meaningful participation of all communities in Kosovo's Provisional Institutions. It is important that all communities be actively engaged in the Provisional Institutions and have a real opportunity to do so, and that they work together in a cooperative and constructive spirit. Lack of participation in the Provisional Institutions and a disengagement from the political process only hampers real progress. Similarly, parallel administrative structures in Kosovo only harm the prospects for a truly multi-ethnic society in Kosovo — I call on Belgrade to discontinue its support for those structures.

54. Acts of intimidation and violence, particularly against minorities, are detrimental to achieving progress in any area and must stop. It is the responsibility of Kosovo's leaders and population to ensure that all people feel welcome and safe in Kosovo. Violence is unacceptable and all of Kosovo's leaders should contribute to ensure that the rule of law is upheld. It is also up to the leaders in Kosovo to lead by example and foster an environment of mutual respect and tolerance, and it is up to Kosovo's residents to create a society where those values are upheld.

55. The record of achievements by the Provisional Institutions so far is mixed, and many challenges remain. There has been progress in areas such as the preparation and adoption of legislation at both the central and local levels of self-government. However, in other areas, such as the meaningful participation of all communities in the Provisional Institutions and the creation of an apolitical civil service, much remains to be done. I am concerned that in some areas progress appears to be stalled. I am also concerned that the Kosovo Assembly is once again refusing to take into account legitimate minority concerns in the legislative process and overstepping its competencies. That is a direct challenge to resolution 1244 (1999), the Constitutional Framework and the law applicable in Kosovo. I fully support the firm line that my Special Representative has taken in that regard.

56. I am pleased that the transfer of non-reserved responsibilities listed in chapter 5 of the Constitutional Framework is now largely complete. The Provisional Institutions must now implement those responsibilities fully and fairly. They will be held accountable and will be assessed accordingly in the review process. The transfer does not affect the overall authority of UNMIK and KFOR under resolution 1244 (1999), or my Special Representative's reserved responsibilities under chapter 8 of the Constitutional Framework. UNMIK will also continue to monitor the situation closely and intervene as necessary, to ensure the compliance of the Provisional Institutions at both the central and municipal levels with resolution 1244 (1999), the Constitutional Framework and other applicable law in Kosovo. The robust support of the Council and key Member States will be essential for the full implementation of resolution 1244 (1999) and the "standards before status" policy. The challenge is not only for the Provisional Institutions, but also for UNMIK to manage the period between now and mid-2005 when a comprehensive review may take place.

57. UNMIK's work can only continue at its current pace if the necessary funding in crucial areas is available. I appeal to Member States to provide, inter alia, financial and other assistance to the process of returns, the resolution of residential property claims and economic development, as well as the transformation of the Kosovo Protection Corps into a disciplined civil emergency organization. Financial help is also required in order to complete the transformation of Kosovo's penal system and to support freedom of movement for communities throughout the region.

58. In conclusion, I would like to express my appreciation to my Special Representative, Mr. Holkeri, for the progress achieved since he assumed his responsibilities. I would particularly like to express my appreciation to the men and women of UNMIK for their commitment and professionalism in carrying out their duties. Finally, my gratitude goes to our partners within UNMIK — the European Union and the Organization for Security and Cooperation in Europe — as well as to KFOR and to other organizations, agencies, contributors and donors for their valued political and material support in implementing Security Council resolution 1244 (1999).

Annex I

Composition and strength of the UNMIK police as at 31 December 2003

Country	*Number*	*Country*	*Number*
Argentina	143	Malawi	17
Austria	39	Malaysia	40
Bangladesh	75	Mauritius	5
Belgium	1	Nepal	33
Brazil	3	Nigeria	53
Bulgaria	82	Norway	18
Cameroon	20	Pakistan	158
Canada	10	Philippines	55
Czech Republic	16	Poland	123
Denmark	26	Portugal	18
Egypt	58	Romania	175
Fiji	31	Russian Federation	112
Finland	14	Senegal	15
France	76	Slovenia	13
Germany	326	Spain	8
Ghana	58	Sweden	40
Greece	20	Switzerland	8
Hungary	5	Tunisia	4
India	335	Turkey	153
Italy	46	United Kingdom	105
Jordan	411	United States of America	466
Kenya	38	Ukraine	188
Kyrgyzstan	4	Zambia	29
Lithuania	8	Zimbabwe	54
Total			**3 735**

Composition of the Kosovo Police Service as of 31 December 2003

Category	*Percentage*	*Number*
Kosovo Albanians	84.6	4 823
Kosovo Serbs	9.3	529
Other ethnic minority members	6.2	352
Total		**5 704**
Men	85.2	4 860
Women	14.8	844

Annex II

Composition and strength of the Military Liaison Component of the United Nations Interim Administration Mission in Kosovo (as at 31 December 2003)

Nationality	*Number of liaison officers*
Argentina	1
Bangladesh	1
Belgium	1
Bolivia	1
Bulgaria	1
Chile	1
Czech Republic	1
Denmark	1
Finland	2
Hungary	1
Ireland	3
Italy	1
Jordan	1
Kenya	1
Malawi	1
Malaysia	1
Nepal	2
New Zealand	1
Norway	2
Pakistan	1
Poland	1
Romania	1
Russian Federation	2
Spain	2
Switzerland	1
Ukraine	2
United Kingdom	1
United States of America	2
Zambia	1
Total	**38**

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